

Revisiting Core Principles

The Russell RAFI™ Index series utilizes fundamental measures of company size (adjusted sales, retained cash flow, and dividends plus buybacks) as a rebalancing anchor to trade against the constantly shifting expectations of the market.

This approach results in overweights to out-of-favor securities, which are often undervalued, and underweights to popular securities, which are often overvalued.

Over the short term, these exposures can cause relative performance to vary, but this simple, disciplined approach has historically outperformed the cap-weighted benchmark over the long-term.

As a rebalancing strategy that trades against recent winners, the Fundamental Index™ methodology will often face performance headwinds during periods of trending prices, sustained momentum, or extreme value underperformance - and benefit from performance tailwinds during periods of security mean reversion or value outperformance.

The Russell RAFI™ Developed ex US Small Company Index is comprised of the developed ex US companies in the bottom 12.5% by fundamental weight at the time of reconstitution.

Performance

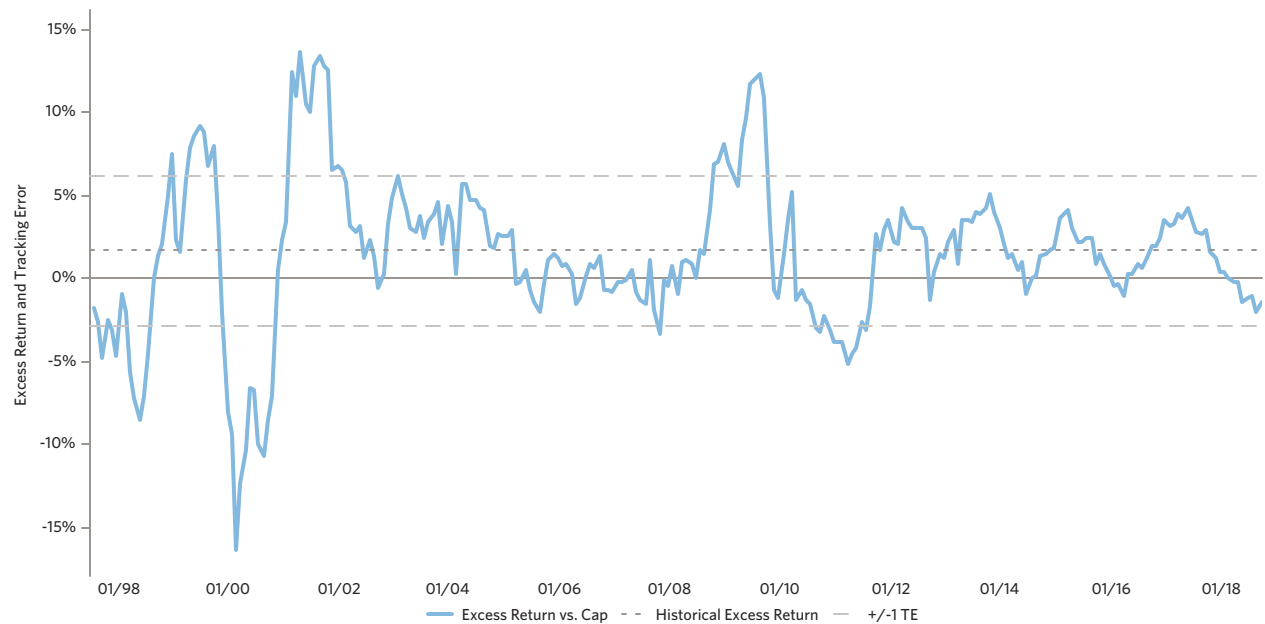
Exhibit 1:
Performance Table

Exhibit 2:
Rolling 1-Year Excess Returns

Exhibit 1: Performance Tableⁱ

	QTD	1-Yr	3-Yr	5-Yr	10-Yr	ITD*
Russell RAFI™ Dev ex US Small Co Index	-0.8%	2.1%	13.6%	8.3%	10.7%	8.1%
Russell Developed ex US Small Cap	-0.5%	3.6%	12.7%	7.3%	8.9%	6.6%
Value Added	-0.3%	-1.5%	1.0%	1.0%	1.7%	1.5%
MSCI World ex USA Small Cap	-0.8%	3.8%	12.7%	7.5%	9.4%	6.8%
Portfolio Standard Deviation		7.8%	10.5%	10.2%	16.9%	12.1%
Benchmark Standard Deviation		7.4%	10.4%	10.3%	17.5%	12.7%
Tracking Error		1.8%	1.8%	1.9%	3.1%	2.4%

Exhibit 2: Rolling 1-Year Excess Returnsⁱⁱ



i. Exhibit 1.
Performance derived from FactSet. All returns are total returns in USD. All returns greater than one year are annualized. Standard deviation and tracking error require a minimum of 1 year return history.
*Inception to Date (ITD) returns are calculated starting the first full month of returns following February 24, 2011.

ii. Exhibit 2.
Performance derived from FactSet. All returns are total returns in USD. Rolling 1-year excess returns and tracking error are calculated starting August 31, 1996. If applicable, strategy returns prior to inception are simulated. Inception date is February 24, 2011.

The Value Premium

The strategy invests broadly across the entire economy; however a byproduct of the strategy's rebalancing process is a value tilt.

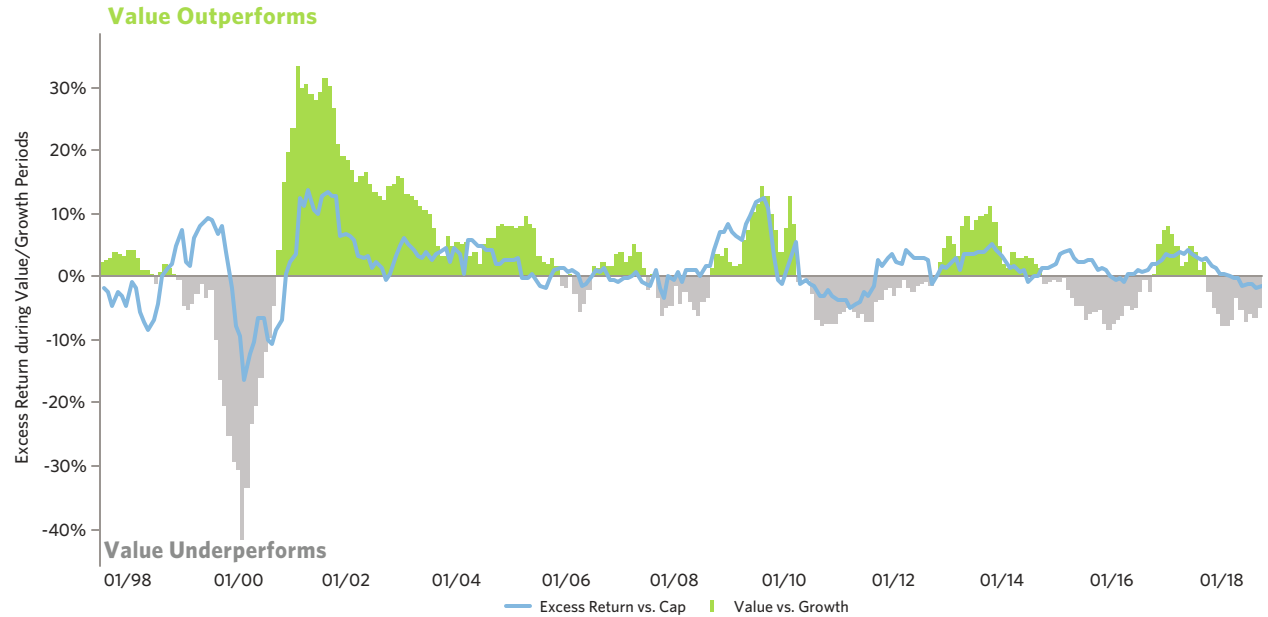
On a one-year rolling basis, the Russell RAFI™ Dev ex US Small Co Index outperformed 77% of the time when value won and 55% of the time when growth won.

Generally, excess returns were achieved by taking advantage of mean reversion in stock prices which can sometimes take several years to run its course.

The Russell RAFI™ Dev ex US Small Co Index delivered consistent outperformance over full market cycles, with positive excess returns in 68% of rolling 1-year periods, 86% of rolling 3-year periods, and 100% of rolling 5-year periods.

Exhibit 3: Rolling 1-Year Excess Returns

Exhibit 3: Rolling 1-Year Excess Returnsⁱ



ⁱ Exhibit 3. Russell RAFI™ Dev ex US Small Co Index rolling 1-year excess returns are measured against Russell Developed ex US Small Cap. Value / Growth periods measured by rolling 1-year excess returns of MSCI World ex USA Small Cap Value vs. MSCI World ex USA Small Cap Growth. Calculation starts on August 31, 1996. Strategy returns prior to inception are simulated. Strategy inception is February 24, 2011.

Portfolio Characteristics

The Russell RAFI™ Dev ex US Small Co Index is attractively positioned relative to the cap-weighted benchmark.

Exhibit 4:
Portfolio Characteristics

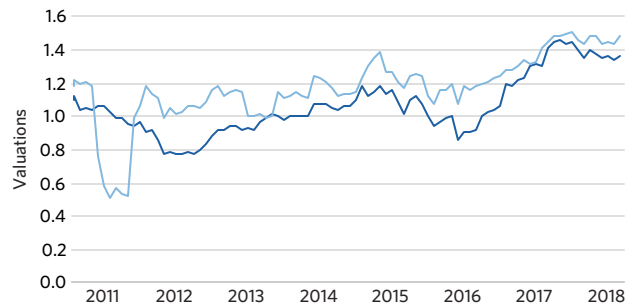
Exhibit 5:
Historical Portfolio Characteristics

Exhibit 4: Portfolio Characteristicsⁱ

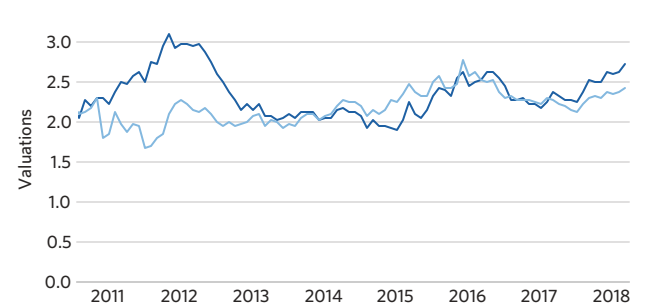
	Number of Holdings	Active Share	Price to Sales	Price to Cash Flow	Price to Book	Div. Yield	Market Cap. (Billions)	Sharpe Ratio*	Info. Ratio*	Tracking Error*
Russell RAFI™ Dev ex US Small Co Index	1510	60.1	0.7	8.7	1.4	2.7%	4	0.64	0.63	2.4%
Russell Global Small Cap Developed ex US	2721	--	1.0	10.0	1.5	2.4%	2	0.49	--	--

Exhibit 5: Historical Portfolio Characteristicsⁱⁱ

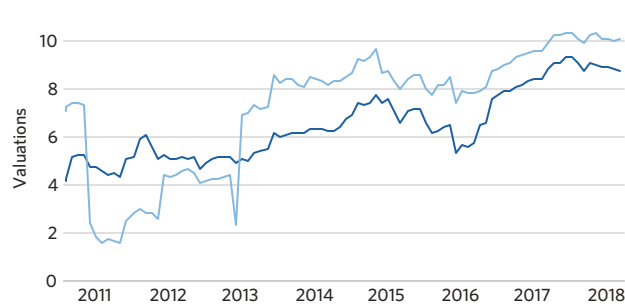
Price to Book



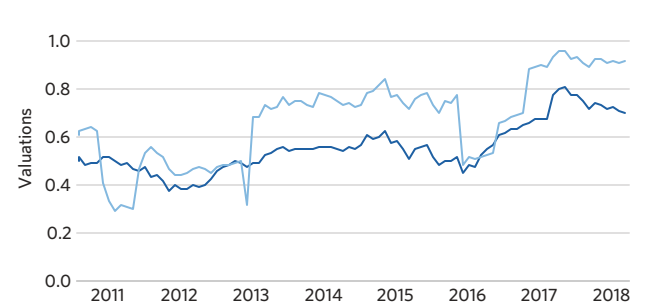
Dividend Yield (%)



Price to Cash Flow



Price to Sales



— Russell RAFI™ Dev ex US Small Co Index (Left) — Russell Global Small Cap Developed ex US (Left)

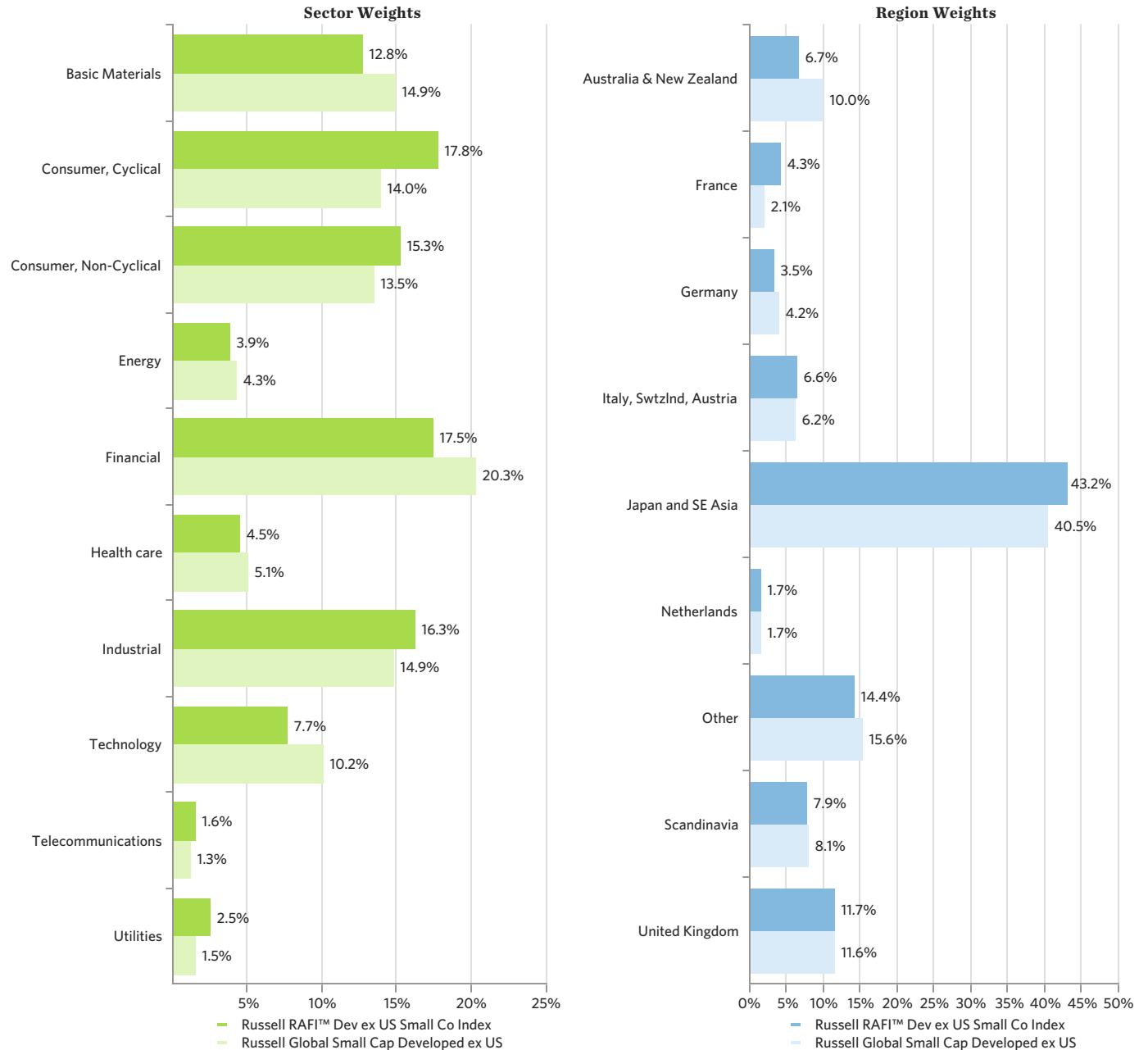
i. Exhibit 4.
Portfolio characteristics data derived from FactSet.
*Sharpe Ratio, Information Ratio, and Tracking Error are calculated starting the first full month of returns following February 24, 2011. Minimum 1-year return history. The 3-mo US Treasury Bill return is used as a proxy for risk-free rate. If applicable, strategy returns prior to inception are simulated. Inception date is February 24, 2011.

ii. Exhibit 5.
Portfolio characteristics derived from FactSet. Data prior to strategy inception is simulated. Strategy inception is February 24, 2011.

Current Position

Exhibit 6:
Sector and Region Weights

Exhibit 6: Sector and Region Weightsⁱ



ⁱ. Exhibit 6.
Portfolio characteristics data derived from FactSet.



Current Position

Exhibit 7: Top 10 Holdings

Exhibit 8: Top Over/Underweights

Exhibit 7: Top 10 Holdingsⁱ

Russell RAFI™ Dev ex US Small Co Index vs. Russell Developed ex US Small Cap					
Index	Weights	1-Yr Perf.	Benchmark	Weights	1-Yr Perf.
Melrose Industries PLC	0.3%	-5.2%	Melrose Industries PLC	0.7%	-5.2%
Petroleum Geo-Services ASA	0.2%	82.6%	Showa Denko K.K.	0.5%	75.9%
Premier Oil plc	0.2%	97.6%	GVC Holdings PLC	0.4%	11.9%
Vallourec SA	0.2%	-0.4%	Bluescope Steel Limited	0.4%	42.3%
TGS	0.2%	73.7%	Logitech International S.A.	0.4%	25.1%
Sonova Holding	0.2%	20.9%	a2 Milk Company Ltd.	0.3%	58.2%
Enerplus Corporation	0.2%	27.5%	Daifuku Co., Ltd.	0.3%	5.5%
Taisho Pharmaceutical Holdings Co., Ltd.	0.2%	63.3%	Algonquin Power & Utilities Corp.	0.3%	3.1%
TFI International Inc.	0.2%	47.0%	Aker BP ASA	0.3%	127.5%
Amer Sports	0.2%	56.3%	Elis SA	0.3%	-8.7%

Exhibit 8: Top Over/Underweightsⁱ

Russell RAFI™ Dev ex US Small Co Index vs. Russell Developed ex US Small Cap					
Top Overweights	Active Weights	1-Yr Total Effect	Top Underweights	Active Weights	1-Yr Total Effect
Sonova Holding	0.2%	0.0%	Showa Denko K.K.	-0.5%	-0.2%
Taisho Pharmaceutical Holdings Co., Ltd.	0.2%	0.1%	Melrose Industries PLC	-0.4%	0.1%
Amer Sports	0.2%	0.1%	Bluescope Steel Limited	-0.4%	-0.1%
Dassault Systemes SA	0.2%	0.1%	GVC Holdings PLC	-0.4%	0.0%
Edenred SA	0.2%	0.1%	a2 Milk Company Ltd.	-0.3%	-0.1%
Marui Group Co., Ltd.	0.2%	0.1%	Aker BP ASA	-0.3%	-0.1%
Computershare Limited	0.2%	0.0%	Logitech International S.A.	-0.3%	0.0%
Hochtief AG	0.2%	0.0%	Parkland Fuel Corporation	-0.3%	-0.1%
Man Group Plc	0.2%	0.0%	IMCD N.V.	-0.2%	0.0%
Nomura Research Institute, Ltd.	0.2%	0.0%	IT Holdings	-0.2%	0.0%

i. Exhibit 7, Exhibit 8.

Portfolio characteristics and securities data derived from FactSet. 1-Yr Total Effect is calculated using a holdings based attribution, and measures the impact that a security had on relative performance. It is a function of the active weight of a company as well as that company's performance versus the overall benchmark.



Attribution

Exhibit 9: Sector Attribution

Exhibit 10: Region Attribution

Exhibit 9: Sector Attributionⁱ

1-Quarter Ending 09/30/2018

Sector	Portfolio Weight	Bench. Weight	Sector Excess Return	Allocation Effect	Selection + Interaction Effect	Total Effect
Basic Materials	12.82%	14.92%	-1.89%	0.02%	0.08%	0.10%
Consumer, Cyclical	17.84%	13.97%	-2.60%	-0.05%	-0.25%	-0.31%
Consumer, Non-Cyclical	15.34%	13.49%	-0.66%	0.00%	-0.26%	-0.25%
Energy	3.91%	4.31%	-0.62%	-0.01%	-0.36%	-0.37%
Financial	17.49%	20.33%	1.01%	0.00%	0.25%	0.25%
Health care	4.52%	5.12%	-0.65%	0.00%	-0.04%	-0.04%
Industrial	16.25%	14.88%	2.81%	0.05%	0.05%	0.10%
Technology	7.74%	10.15%	-1.03%	0.02%	-0.01%	0.01%
Telecommunications	1.57%	1.30%	8.20%	0.00%	0.17%	0.18%
Utilities	2.53%	1.54%	1.36%	0.01%	0.02%	0.03%
Excess Return						-0.29%

1-Year Ending 09/30/2018

Sector	Portfolio Weight	Bench. Weight	Sector Excess Return	Allocation Effect	Selection + Interaction Effect	Total Effect
Basic Materials	12.82%	14.92%	-2.79%	0.02%	-0.15%	-0.13%
Consumer, Cyclical	17.84%	13.97%	-6.87%	-0.16%	-0.26%	-0.42%
Consumer, Non-Cyclical	15.34%	13.49%	-0.51%	0.01%	-0.35%	-0.34%
Energy	3.91%	4.31%	9.79%	-0.02%	-0.52%	-0.54%
Financial	17.49%	20.33%	-2.14%	0.08%	-0.01%	0.07%
Health care	4.52%	5.12%	7.48%	-0.01%	0.30%	0.29%
Industrial	16.25%	14.88%	-0.03%	-0.02%	0.08%	0.07%
Technology	7.74%	10.15%	5.14%	-0.12%	-0.30%	-0.42%
Telecommunications	1.57%	1.30%	-6.84%	0.00%	-0.06%	-0.06%
Utilities	2.53%	1.54%	1.22%	0.01%	-0.01%	0.00%
Excess Return						-1.50%

Exhibit 10: Region Attributionⁱ

1-Quarter Ending 09/30/2018

Region	Portfolio Weight	Bench. Weight	Country Excess Return	Allocation Effect	Selection + Interaction Effect	Total Effect
Australia & New Zealand	6.72%	10.03%	0.40%	0.00%	0.03%	0.02%
France	4.26%	2.07%	-1.60%	-0.07%	0.10%	0.02%
Germany	3.47%	4.19%	-1.48%	0.01%	-0.02%	-0.01%
Italy, SwtZlnd, Austria	6.61%	6.23%	-0.72%	0.00%	-0.12%	-0.12%
Japan and SE Asia	43.24%	40.50%	0.20%	0.02%	-0.24%	-0.22%
Netherlands	1.67%	1.74%	-2.02%	0.01%	0.13%	0.15%
Other	14.43%	15.55%	0.07%	-0.01%	-0.46%	-0.48%
Scandinavia	7.91%	8.08%	3.38%	-0.01%	0.12%	0.10%
United Kingdom	11.69%	11.61%	-2.66%	0.01%	0.22%	0.23%
Excess Return						-0.29%

1-Year Ending 09/30/2018

Region	Portfolio Weight	Bench. Weight	Country Excess Return	Allocation Effect	Selection + Interaction Effect	Total Effect
Australia & New Zealand	6.72%	10.03%	1.60%	-0.29%	-0.70%	-1.00%
France	4.26%	2.07%	-8.15%	-0.30%	0.33%	0.03%
Germany	3.47%	4.19%	-2.41%	0.07%	0.08%	0.15%
Italy, SwtZlnd, Austria	6.61%	6.23%	-6.14%	-0.02%	-0.24%	-0.27%
Japan and SE Asia	43.24%	40.50%	1.46%	0.06%	-0.06%	-0.01%
Netherlands	1.67%	1.74%	-12.12%	-0.01%	-0.09%	-0.10%
Other	14.43%	15.55%	-5.09%	0.01%	-0.66%	-0.65%
Scandinavia	7.91%	8.08%	2.83%	-0.02%	0.01%	-0.01%
United Kingdom	11.69%	11.61%	-2.25%	0.04%	0.31%	0.35%
Excess Return						-1.50%

i. Exhibit 9, Exhibit 10. Portfolio characteristics and securities data derived from FactSet. The attributions have been normalized to match the return of the strategy, as presented in the performance table on page 2. Data prior to strategy inception is simulated. Strategy inception is February 24, 2011.

Disclosures

Source: FactSet based on data from FTSE Russell.

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Prior to 11/1/2016, the 1-yr performance values reported in the Top 10 Holdings exhibit and the Top Over/Underweights exhibit were incorrect. The calculation has been modified to report the appropriate values moving forward.

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